

Wastewater Utility Fund

An Enterprise Fund of the City of Norfolk, Virginia

Financial and Compliance Report Fiscal Year Ended June 30, 2015

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Financial and Compliance Report
Fiscal Year Ended June 30, 2015

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KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Honorable Members of the City Council
City of Norfolk, Virginia:

Report on the Financial Statements

We have audited the accompanying financial statements of the Wastewater Utility Fund of the City of Norfolk, Virginia (the Fund), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Wastewater Utility Fund of the City of Norfolk, Virginia, as of June 30, 2015, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1 to the basic financial statements, the accompanying financial statements present only the Wastewater Utility Fund and do not purport to, and do not present fairly the financial position of the City of Norfolk, Virginia, the changes in its financial position or its cash flows, where applicable, in conformity with the U.S. generally accepted accounting principles.

As discussed in note 1 to the basic financial statements, in fiscal year 2015, the Fund adopted new accounting guidance described in Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 8, the schedule of funding in progress for Other Post-Employment Benefits Plans on page 30, schedule of contributions on page 31, and schedule of proportionate share of the net pension liability on page 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fund's basic financial statements. The Supplemental Debt Capacity Information is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplemental Debt Capacity Information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Debt Capacity Information is fairly stated in all material respects in relation to the basic financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2016 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

KPMG LLP

Norfolk, Virginia
January 25, 2016

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2015

The following discussion and analysis of the Wastewater Utility Fund of the City of Norfolk, Virginia's (the "Fund") financial performance provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2015. The intent of the management discussion and analysis is to provide a summarized view of the Fund's financial performance and should be reviewed in conjunction with the basic financial statements and supporting notes for a complete understanding of the Fund's financial performance.

Financial Highlights for the Fiscal Year 2015

- For the fiscal year ended June 30, 2015, the Fund reported net operating revenues of \$28,241,721, an increase of 3.04% from fiscal year 2014 net operating revenues.
- The Fund's total operating expenses for fiscal year 2015 were \$16,702,281, an increase of 1.2% from fiscal year 2014 operating expenses.
- Total net position was \$107,128,340 as of June 30, 2015 and was comprised of net investment in capital assets of \$93,518,618, restricted net position of \$3,438,506 and unrestricted net position of \$10,171,216. Total net position is defined as total assets and deferred outflows of resources less total liabilities and deferred inflows of resources.
- The Fund's total cash and investments as of June 30, 2015 were \$19,734,125.
- As of June 30, 2015, the Fund had outstanding general obligation and revenue bonds payable and unamortized bond premium of \$160,076,740. This was a 1.0% decrease in the outstanding bonds payable as of June 30, 2014. During the fiscal year 2015, the Fund was awarded a \$10,000,000 Virginia Clean Water Revolving Loan at 0% interest.
- For the fiscal year ended June 30, 2015, the Fund implemented *GASB Statement 68 Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27* which required the reporting of Net Pension Liability and current pension expense/revenue on the financial statements and a restatement of the net position related to prior years. Additionally, certain changes in the net pension liability were required to be reported as deferred inflows and outflows and amortized in future periods. The restated beginning net position for fiscal year ending June 30, 2015 was \$99,314,388, a net decrease of \$2,948,540 from the net position previously reported for the fiscal year 2014 of \$102,262,928.

Financial Statements Overview

The Fund's financial statements are reported on the full accrual basis as required by U.S. Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). These financial statements include, in addition to the management discussion and analysis, the basic financial statements and related notes and required supplementary information. The basic financial statements are comprised of three statements, the statement of net position, the statement of revenues, expenses and changes in net position and the statement of cash flows.

The statement of net position presents information on all Fund assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating.

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Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2015

The statement of revenues, expenses and changes in net position presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for those items that will result in cash flows in future fiscal periods.

The statement of cash flows, when taken together with the statement of net position and statement of revenues, expenses, and changes in net position, provides the reader a complete "snapshot" of the financial condition and results of operations of the Fund as of June 30, 2015 and for the year then ended.

Notes to the financial statements are an integral part of the statements and should be read in conjunction with the financial statements and Management's Discussion and Analysis.

Financial Analysis

The following financial analysis provides insight into the factors that had a significant impact on the variance between fiscal years 2015 and 2014.

	2015	2014*
Current assets	\$ 24,030,634	\$ 28,249,274
Capital assets	249,209,827	238,931,403
Deferred outflows of resources	3,438,583	2,533,742
Total assets and deferred outflows of resources	<u>\$ 276,679,044</u>	<u>\$ 269,714,419</u>
Current liabilities	\$ 14,585,156	\$ 15,186,670
Long-term liabilities	153,469,690	152,247,482
Deferred inflows of resources	1,495,858	17,339
Total liabilities and deferred inflows of resources	<u>\$ 169,550,704</u>	<u>\$ 167,451,491</u>
Net position:		
Net investment in capital assets	\$ 93,518,618	\$ 88,270,787
Restricted	3,438,506	246,201
Unrestricted	10,171,216	13,745,940
Total net position	<u>\$ 107,128,340</u>	<u>\$ 102,262,928</u>

*The Fund implemented GASB 68 effective July 1, 2014. The 2014 financial statements have not been restated for comparative purpose. Certain amounts were reclassified from prior year to conform to current year presentation.

Overall, total net position increased by approximately \$4.9 million from fiscal year 2014. Net investments in capital were 87.3% of the total net position at June 30, 2015. Restricted resources were 3.21% of the net position. The remaining unrestricted resources of \$10,171,216 may be used to meet to the Fund's ongoing obligations to citizens and creditors.

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For the Fiscal Year Ended June 30, 2015

The ending net position was also impacted by the implementation of GASB statement 68 which required the reporting of net pension liability and current pension expense/revenue on the financial statements and required certain changes in the net pension liability to be reported as deferred inflows and outflows and amortized in future periods. As a result, the Fund reported a net pension liability of \$2,846,304, deferred outflows on changes in pension value of \$609,442 and deferred inflows on changes in pension value of \$1,465,026 as of June 30, 2015. Other deferred outflows and inflows of \$2,829,141 and \$30,832, respectively, were related to bond refundings.

The table below provides a summary of revenues, expenses and changes in net position for the years ended June 30, 2015 and 2014.

	2015	2014*
Operating revenues, net	\$ 28,241,721	\$ 27,409,238
Operating expenses	16,702,281	16,500,470
Operating income	11,539,440	10,908,768
Non-operating revenues	214,199	224,205
Non-operating expenses	(3,939,687)	(5,143,534)
Total non-operating expenses	(3,725,488)	(4,919,329)
Net income before contributions	7,813,952	5,989,439
Capital contributions	-	100,420
Change in net position	7,813,952	6,089,859
Net position - beginning, as previously reported	102,262,928	96,330,179
Effect of implementation of GASB 65	-	(157,110)
Effect of implementation of GASB 68	(2,948,540)	-
Net position - beginning, as restated for 2015	99,314,388	96,173,069
Total net position - end	\$ 107,128,340	\$ 102,262,928

*2014 was not restated for the effects of GASB No 68.

For the fiscal year ending June 30, 2015, the Fund reported revenue of \$28,455,920 and expenses of \$20,641,968, a net income before contributions of \$7,813,953. The operating revenue increase of 3.0% from fiscal year 2014 was the result of the planned annual rate increase, net of adjustments and in line with the approved budgeted amount for the fiscal year ended June 30, 2015. For fiscal year ending June 30, 2015 operating expenses increased by 1.2% from the fiscal year 2014.

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Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2015

A summary of the Fund's net capital assets at June 30, 2015 and 2014 are as follows:

	2015	2014
Land	\$ 1,663,818	\$ 398,950
Buildings	3,643,762	2,848,177
Equipment	230,834,439	223,886,572
Intangible assets	-	28,514
Construction in progress	13,067,808	11,769,190
	<u>\$ 249,209,827</u>	<u>\$ 238,931,403</u>

The Fund's capital assets totaled \$249,209,827 (net of accumulated depreciation) and account for 91.2% of total assets at June 30, 2015. The net capital assets increased by \$10,278,424 from fiscal year 2014, representing assets placed in service of \$14,947,459, and an increase in construction in progress of \$1,298,618, less the depreciation of assets in the amount of \$5,967,653. During fiscal year 2015, major capital projects spending included designing and constructing pump stations and replacing sewer gravity and force mains.

Additional information on the Fund's capital assets can be found in Note 5 of the financial statements.

Debt Administration

The City of Norfolk (the "City") manages debt in accordance with the City's debt policies. The Fund's general obligation bonds are backed by the full faith and credit of the City. The Fund's revenue bonds are secured by the revenue generated by the Fund's wastewater collection system. Bond proceeds are used to finance capital projects that improve the City's wastewater collection system. As of June 30, 2015, the Fund had outstanding general obligation and revenue bonds payable of \$160,076,740. A summary of the Fund's outstanding bonds as of June 30, 2015 and 2014 is as follows:

	2015	2014
Revenue bonds	\$ 55,545,923	\$ 48,954,628
General obligation bonds	104,530,817	112,730,244
Total	<u>\$ 160,076,740</u>	<u>\$ 161,684,872</u>

The table below is the latest credit rating for the City's general obligation bonds as of the date of this report.

Bonding Program	Fitch Ratings	Standard and Poor's	Moody's Investors Service
General Obligation	AA+	AA+	Aa2

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For the Fiscal Year Ended June 30, 2015

Future Outlook

The Fund continues to support the City of Norfolk's long-term objective of being a well-managed government and strives to enhance quality of life by providing excellent wastewater services at the best value to the City's customers. The Fund aims its attention on exceeding customer expectations through fast, effective and courteous service, protecting natural resources and fostering a healthy, safe, and clean environment, and embracing new and better ways of achieving quality results through creativity, initiative and technology.

Contacting the Fund's Financial Management

This financial report is designed to provide our citizens, clients, and taxpayers with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be forwarded to: Director of Department of Utilities, City of Norfolk.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Statement of Net Position
June 30, 2015

Assets	2015
Current assets:	
Cash and short-term investments (Note 2)	\$ 13,274,203
Restricted short term investments (Note 2)	3,210,194
Receivables:	
Accounts (net) (Note 3)	2,838,067
Unbilled accounts (Note 4)	1,281,756
Due from other funds	139,793
Inventories	36,893
Restricted cash held in escrow (Note 2)	228,312
Investments restricted for construction (Note 2)	3,021,416
Total current assets	24,030,634
Capital Assets (Note 5):	
Non-depreciable assets	14,731,626
Depreciable assets	310,099,968
Accumulated depreciation and amortization	(75,621,767)
Total non-current assets	249,209,827
Total assets	273,240,461
Deferred outflows of resources	
Loss on defeasance of bonds (Note 6)	2,829,141
Pensions (Note 7)	609,442
Total deferred outflows	3,438,583
Total assets and deferred outflows of resources	\$ 276,679,044

(Continued)

Wastewater Utility Fund
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Statement of Net Position (Continued)
June 30, 2015

Liabilities	2015
Current liabilities:	
Vouchers payable	\$ 165,703
Vouchers payable for CIP Projects	1,817,379
Contract retainage	471,926
Due to Capital Project fund and other funds	267,500
Accrued interest	1,139,415
Accrued payroll	116,003
Current portion of bonds payable (Note 6)	10,282,580
Compensated absences	222,692
Other liabilities	101,958
Total current liabilities	<u>14,585,156</u>
Non-current liabilities:	
General obligation bonds payable (Note 6)	97,398,142
Revenue bonds payable (Note 6)	52,396,018
Net pension liability (Note 1 and 7)	2,846,304
Liability other post employment benefits (OPEB) (Note 11)	670,896
Compensated absences	158,330
Total non-current liabilities	<u>153,469,690</u>
Total liabilities	<u>168,054,846</u>
Deferred inflows of resources	
Gain on defeasance of bonds (Note 6)	30,832
Pensions (Note 7)	1,465,026
Total deferred inflows	<u>1,495,858</u>
Total liabilities and deferred inflows of resources	<u>169,550,704</u>
Net position	
Net investment in capital assets	93,518,618
Restricted	3,438,506
Unrestricted	10,171,216
Total net position	<u><u>\$ 107,128,340</u></u>
See Notes to Financial Statements	

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2015

	2015
Operating revenues:	
Charges for services, net	\$ 28,143,966
Miscellaneous	97,755
Total operating revenues	<u>28,241,721</u>
Operating expenses:	
Personnel services	4,823,702
Plant operations	2,484,215
Chemicals	37,392
Depreciation and amortization	5,967,653
Pension expense (Note 7)	693,253
OPEB expense (Note 11)	28,660
Administrative expenses	1,317,532
Other	1,349,874
Total operating expenses	<u>16,702,281</u>
Operating income	<u>11,539,440</u>
Non-operating revenues (expenses):	
Intergovernmental revenues	214,199
Interest expense and fiscal charges, net of interest capitalized	(2,439,687)
Payments to General Fund	(1,500,000)
Total non-operating expenses, net	<u>(3,725,488)</u>
Change in net position	7,813,952
Net position:	
Total net position - beginning, as previously reported	102,262,928
Adoption of GASB 68 (Note 1)	(2,948,540)
Total net position - beginning, as restated	<u>99,314,388</u>
Total net position - end	<u><u>\$ 107,128,340</u></u>

See Notes to Financial Statements

Wastewater Utility Fund
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Statement of Cash Flows
For the Year Ended June 30, 2015

	2015
Cash flows from operating activities:	
Receipts from customers	\$ 28,145,640
Payments to suppliers	(2,632,245)
Payments to employees	(5,424,230)
Other payments/receipts	(2,626,996)
Net cash provided by operating activities	17,462,169
Cash flows from non-capital financing activities:	
Internal activity, payments from other funds	248,619
Payments to General Fund	(1,500,000)
Intergovernmental revenues	214,199
Net cash (used in) non-capital financing activities	(1,037,182)
Cash flows from capital and related financing activities:	
Proceeds from bonds issued to refund capital debt	19,578,086
Purchases of capital assets	(16,317,910)
Principal paid on capital debt	(20,448,582)
Interest paid on capital debt and bond issuance cost	(3,551,556)
Net cash (used in) capital and related financing activities	(20,739,962)
Cash flows from investing activities:	
Purchase of investments	(9,232,269)
Proceeds from sale or maturity of investments	11,526,401
Net cash provided by investing activities	2,294,132
 Net decrease in cash and cash equivalents	 (2,020,843)
 Cash and short-term investments - beginning of year	 15,295,046
 Cash and short-term investments - end of year	 <u><u>\$ 13,274,203</u></u>

(Continued)

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Statement of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2015

	2015
Reconciliation of operating income to net cash	
Provided by operating activities:	
Operating income	\$ 11,539,440
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	5,967,653
Change in assets and liabilities:	
Accounts receivable (net), billed and unbilled	(96,081)
Inventories	(254)
Vouchers payable	(110,384)
Accrued payroll and compensated absences	37,136
Net pension obligation	84,249
Other liabilities	40,410
Net cash provided by operating activities	\$ 17,462,169
 Noncash investing, capital and financing activities:	
Acquisition of fixed assets through change in contract retainage	\$ (83,627)
Acquisition of fixed assets through change in vouchers payable	\$ 11,794
Capitalized interest, net	\$ 213,441
Increase in deferred inflows through change in pension obligation	\$ 1,465,026

See Notes to Financial Statements

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 1. Summary of Significant Accounting Policies

The Wastewater Utility Fund of the City of Norfolk, Virginia (the "Fund") was established at the direction of Norfolk City Council as an enterprise fund on July 1, 1984. The Fund accounts for the operation of the wastewater system owned by the City of Norfolk (the "City"). The costs of providing services on a continuing basis are financed or recovered through user charges to the City's residential and commercial customers. Activities necessary to provide wastewater services, including operations, maintenance, financing and related debt service, and billing and collection, are accounted for in the Fund. Although separate financial statements have been presented for the Fund, it is also included in the City of Norfolk's Comprehensive Annual Financial Report as a major Enterprise Fund.

A summary of the Fund's significant accounting policies are as follows:

Basis of accounting: The accounting policies of the Fund are based upon accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Boards (GASB). The financial statements are presented on the accrual-basis of accounting, wherein revenue is recognized in the accounting period in which it is earned and expenses are recognized in the accounting period in which the related liabilities are incurred.

New Accounting Standards Adopted: In June, 2012 GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions which amends GASB statement No 27* and was later amended by GASB 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The Fund implemented GASB 68 and 71 as of July 1, 2014. GASB 68 requires the reporting of net pension liability and current pension expense/revenue on the financial statements and a restatement of the net position related to prior years. Additionally, certain changes in the net pension liability are required to be reported as deferred inflows and outflows and amortized in future periods. The restatement of net position is as follows:

	2015
Total net position - beginning, as previously reported	\$ 102,262,928
Effect of the adoption of GASB 68	(2,948,540)
Total net position, beginning, as restated	\$ 99,314,388

As a result of this adoption, net pension liability of \$4,364,663 was recorded, the accrual of the prior year payable to the retirement system of \$669,099 was reversed, and deferred outflows of resources of \$747,024 were recorded at June 30, 2014.

Deposits and Investments: The Fund's cash and short-term investments include cash on hand, demand deposits, and short-term investments with original maturities of one year or less from the date of acquisition.

Investments of the Fund are stated at fair value. Short-term investments are recorded at cost, which approximates fair value. The fair value of the State Treasurer's Local Government Investment Pool ("LGIP") is estimated at the value of the pool shares. The LGIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The external investment pool is administered by the Treasury Board of Virginia.

Wastewater Utility Fund
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Notes to Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

Other investments are stated at their fair value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the fiscal year. Investments that do not have an established market are reported at estimated fair value, primarily net asset value determined based on the fair value of the underlying securities. These investments are reported in the accompanying financial statements as cash and short-term investments, unless the original maturity exceeded one year, in which case they are reported as investments.

The City uses the pooled cash investment method. As a result, income from the investment of pooled cash is allocated to the various funds based on the percentage of cash and temporary investments of each fund to the total pooled cash and temporary investments. For purposes of the statement of cash flows, all highly liquid debt instruments and certificates of deposit are grouped into cash and short-term investments. The cash and investment pool discussed above is considered cash, since it has the same characteristics as a demand account.

Accounts receivable: Accounts receivable are receivables due at the end of the fiscal year which have not been collected by year-end, net of allowance for doubtful accounts. The Fund determines past due status of individual wastewater utility account receivables based on contractual terms and generally does not charge interest on past due amounts. The Fund estimates its allowance for doubtful accounts based on a combination of factors, including the Fund's historical loss experience and any anticipated effects related to current economic conditions, as well as management's knowledge of the current composition of wastewater receivables. Accounts that management believes to be ultimately uncollectible are written off upon such determination and approval of the City Council. Unbilled accounts, net, are estimated at each fiscal year end based on wastewater usage by customers for which billings have not been processed.

Inventories: Inventories are stated at the lower of cost (using the average cost method) or market.

Restricted assets: Certain unspent proceeds of the general obligation bonds as well as certain resources set aside for their repayment are classified as restricted assets on the Statement of Net Position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Capital assets: Capital assets are recorded at cost, less accumulated depreciation. Assets acquired prior to July 1977, for which historical cost records were not available, were appraised and valued at estimated historical cost by means of accepted price indexing methodology.

Depreciation: Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	40 - 75
Transmission and distribution mains	50 - 99
Service meters and meter installation	35 - 50
Pumping and other wastewater equipment	10 - 30
Furniture, fixtures and equipment	5 - 25
Intangible assets	5 - 10

When an asset is retired or otherwise disposed of, the related cost and accumulated depreciation is eliminated from the accounts and any resulting gain or loss is reflected as non-operating revenue or expense.

Interest costs incurred on funds borrowed for construction projects are capitalized, net of interest earned on the temporary investment of the unexpended portion of those funds.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

The Fund evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the Fund are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the Fund are measured using the method that best reflects the diminished service utility of the capital asset. Any insurance recoveries received as a result of impairment events or changes in circumstances resulting in the impairment of a capital asset are netted against the impairment loss.

Compensated absences: It is the Fund's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation leave is fully vested when earned by Fund employees. Sick leave does not vest for Fund employees; however, upon retirement, Fund employees receive credit for each day of accumulated sick leave toward their pension benefit. There is no liability for unpaid accrued sick leave service since the Fund does not pay when the employee separates from service.

Net position: Net position in the financial statements is classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grants, contributions, laws and regulations of other governments or imposed by law through state statute. When both restricted and unrestricted resources are available for use, the policy is to use restricted resources first and then unrestricted resources as they are needed.

Operating and non-operating revenues: The Fund reports as operating revenues all charges for services generated through service fees and certain other miscellaneous revenues. Other revenues, including interest revenue and grants, are reported as non-operating.

General allocations: The General Fund of the City provides administrative services to the Fund, which totaled \$1,409,332 for the year ended June 30, 2015. Charges for these services are treated as expenses by the Fund. In addition the Fund recorded, as other expenses, payments to the General Fund in lieu of taxes of \$152,669 for the year ended June 30, 2015.

Bond premium, discounts and issuance costs: Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method and are included in interest expense. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred.

Loss or gain on bond refunding: In accordance with GASB 65, loss on bond refunding is reported as deferred outflows of resources and gain on bond refunding is reported as deferred inflows of resources in the Fund's financial statements. They are amortized using the straight line method over the term of the debt.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net pension liability: In accordance with GASB 68, certain changes in net pension liability are recorded as deferred inflows and outflows and amortized in future periods using the straight line method. Examples are the differences between actual and projected earnings on investments and effects of change in assumptions.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 2. Cash and Investments

At June 30, 2015, the Fund's cash and investments consist of the following:

	2015
Investment in LGIP	\$ 1
Other investments	6,231,610
Cash and short-term investments	13,502,514
	<u>\$ 19,734,125</u>
 Cash and cash equivalents	 \$ 13,274,203
Restricted cash held in escrow	228,312
Restricted short term investments	3,210,194
Investment restricted for construction	3,021,416
	<u>\$ 19,734,125</u>

Deposits: All cash of the Fund is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, any public depository that receives or holds public deposits ("Qualified Public Depositories") shall elect to secure deposits by either the Pooled Method or the Dedicated Method (which became available by amendments made to the Act effective July 1, 2010). The Pooled Method requires any public depository that receives or holds public deposits to pledge collateral, ranging from 50 to 100 percent of the public deposits, to the State Treasury Board to cover public deposits in excess of Federal deposit insurance. The Pooled Method also provides that if any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of participating governmental entities. If the value of the pool's collateral were inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to members of the pool. Under the Dedicated Method, Qualified Public Depositories are responsible for securing their own public deposits, by the pledge and deposit of eligible collateral with a qualified escrow agent, equal to or in excess of required collateral amounts, priced at a minimum of 105% to 130% of all public deposits held by the bank, based on rating determined under the Act; and therefore will not be assessed for losses of another bank that is in default or has become insolvent. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks. Both methods of securing public deposits are similar to depository insurance. Funds deposited in accordance with the Act are considered to be fully insured. The City's primary banking institution has elected to use the Dedicated Method.

Investments: Statutes authorize the Fund to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development ("World Bank"), Asian Development Bank, and the African Development Bank, commercial paper rated A-1 by Standard and Poor's or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool ("LGIP"), certain mutual funds, corporate notes, asset-backed securities, and savings accounts or time deposits.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 2. Cash and Investments (Continued)

The Fund has no formal policy regarding credit risk, interest rate risk, concentration of credit risk, custodial credit risk, or foreign investment risk.

Certain cash and investments of the Fund are combined with other City funds for investment purposes. These amounts are treated as cash because they have the same characteristics as a demand deposit account and are reflected as cash and short-term investments in the accompanying statements of net position. These amounts are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act.

At June 30, 2015, the Fund had \$1 deposited in the LGIP which carries a Standard and Poor's rating of AAAm and is included in cash and short-term investments.

The Fund's investments are considered to be mutual fund investment types and have a maturity of less than one year. For the year ended June 30, 2015, the Fund's investments are categorized below to give an indication of the level of interest rate risk for the investment type by the entity at year-end.

Investment Type	Fair Value		Rating
	Less than 1 year		
SNAP Money Market Mutual Funds	\$	4,642,667	AAAm
PFM Funds Prime Series		1,588,943	AAAm
	\$	6,231,610	

Note 3. Accounts Receivable

Accounts receivable at June 30, 2015 are comprised of the following:

	2015
Wastewater maintenance fees	\$ 3,545,240
Other	142,827
Less allowance for uncollectible accounts	(850,000)
	<u>\$ 2,838,067</u>

The Fund recorded \$143,469 of bad debt expense which was offset against the operating revenue for the fiscal year ended June 30, 2015.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 4. Unbilled Accounts Receivable

At June 30, 2015, the Fund recognized \$1,281,756 as unbilled accounts receivable related to unread meters. The associated revenue is included in net charges for services. These amounts were billed in July 2015.

Note 5. Capital Assets

Capital assets at June 30, 2015 were comprised of the following:

	Balance June 30, 2014	Additions	Retirements / Transfers	Balance June 30, 2015
Nondepreciable assets:				
Land	\$ 398,950	\$ 1,264,868	\$ -	\$ 1,663,818
Construction-in-progress	11,769,190	15,848,986	(14,550,368)	13,067,808
Total nondepreciable assets	\$ 12,168,140	\$ 17,113,854	\$ (14,550,368)	\$ 14,731,626
Depreciable & amortized assets:				
Buildings	\$ 3,818,115	\$ -	\$ 873,817	\$ 4,691,932
Equipment	292,506,784	13,682,591	(873,817)	305,315,558
Intangible assets	92,478	-	-	92,478
Total depreciable & amortized assets	\$ 296,417,377	\$ 13,682,591	\$ -	\$ 310,099,968
Less accumulated depreciation for				
Buildings	\$ (969,938)	\$ (78,232)	\$ -	\$ (1,048,170)
Equipment	(68,620,212)	(5,860,907)	-	(74,481,119)
Intangible assets	(63,964)	(28,514)	-	(92,478)
Total accumulated depreciation	\$ (69,654,114)	\$ (5,967,653)	\$ -	\$ (75,621,767)
Total depreciable assets, net	\$ 226,763,263	\$ 7,714,938	\$ -	\$ 234,478,201
Total capital assets, net	\$ 238,931,403	24,828,792	\$ (14,550,368)	\$ 249,209,827

The Fund capitalized interest expense of \$230,209 and interest income of \$16,768 for the year ending June 30, 2015.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 6. Long-Term Obligations

General obligation bonds: A summary of general obligation bond transactions for the fiscal year ended June 30, 2015 is as follows:

	2015
Beginning, July 1	\$104,851,062
Bonds retired	(7,928,960)
Bonds refunded	(10,029,622)
Bonds issued	10,496,791
Bonds outstanding at June 30	97,389,271
Unamortized discount/premium, net	7,141,546
General obligation bonds outstanding at June 30, adjusted for unamortized discount/premium	104,530,817
Less current portion	(7,132,675)
	<u>\$ 97,398,142</u>

Wastewater utility general obligation bonds outstanding are comprised of the following individual issues:

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2015
Series 2003 VRA	4/8/2003	\$ 9,423,794	2.00%	\$ 5,284,701
Series 2004 VRA	9/17/2004	11,187,809	3.10%	7,063,801
Series 2005 VRA	3/14/2006	11,500,000	2.25%	7,824,160
Series 2006 VRA	9/28/2006	14,250,000	0.00%	9,262,500
Series 2008 Capital Improvement	6/30/2008	153,605,000	4.70 - 5.00%	2,235,000
Series 2009 Refunding	5/21/2009	21,895,000	3.00 - 5.00%	392,024
Series 2010 Capital Improvement	1/21/2010	11,790,682	3.00 - 5.96%	9,403,950
Series 2010 G Refunding	10/19/2010	6,867,368	4.00 - 5.00%	6,588,789
Series 2012 A Refunding	5/30/2012	82,179,384	2.00 - 5.00%	5,958,367
Series 2012 C Capital Improvement	6/28/2012	21,625,000	4.00 - 5.00%	11,895,000
Series 2013 A Capital Improvement	11/7/2013	7,595,000	2.00 - 5.00%	7,205,000
Series 2014 Refunding	4/2/2014	12,923,780	3.00 - 5.00%	12,923,780
Series 2014 A Refunding	6/2/2014	1,723,575	1.40%	1,022,385
Series 2014B Refunding	10/1/2014	647,450	3.29%	647,450
Series 2014C Refunding	9/30/2014	8,023,133	2.00 - 5.00%	7,856,156
Series 2015 Refunding	3/2/2015	1,826,208	3.32%	1,826,208
				<u>\$ 97,389,271</u>

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 6. Long-Term Obligations (Continued)

A summary of the requirements to amortize general obligation bonds outstanding at June 30, 2015 is as follows:

Year Ending June 30, 2015	Principal	Interest
2016	\$ 7,132,675	\$ 3,405,802
2017	7,167,107	3,177,757
2018	6,807,077	2,845,988
2019	6,894,302	2,794,230
2020	6,811,755	2,602,583
2021-2025	35,592,623	8,819,245
2026-2030	21,656,589	3,208,797
2031-2035	5,327,143	418,818
	\$ 97,389,271	\$ 27,273,220

General obligation bonds are payable first from the revenue of the specific funds in which they are recorded; however, the full faith and credit of the City is pledged to the payment of the principal and interest on general obligation bonds.

General Obligation Bonds - new and refunding

On September 30, 2014, the City issued \$58,510,000 General Obligation Refunding Bonds, Series 2014C. The Fund's portion of the \$58,510,000 General Obligation Refunding Bonds, series 2014C was \$8,023,133. It was used to defease \$7,560,000 of Wastewater's General Obligation Capital Improvement Bonds, the Series 2012C (Tax-Exempt). The refunded bond is considered to be defeased and the liability for the bond has been removed.

On October 1, 2014 the City issued \$9,915,000 General Obligation Refunding Bonds, Series 2014B. The Fund's portion of the \$9,915,000 General Obligation Refunding Bonds, Series 2014B was \$647,450. It was used to defease \$646,858 of the Fund's General Obligation Capital Improvement and Refunding Bonds, Series 2006. The refunded bond is considered to be defeased and the liability for the bond has been removed.

On March 2, 2015, the City Issued \$16,320,000 General Obligation Refunding Bonds, Series 2015. The Fund's portion of the General Obligation Refunding Bonds, Series 2015 was \$1,826,208. It was used to defease \$290,923 of Wastewater's General Obligation, Series 2005 and \$1,531,841 of Wastewater's General Obligation Bonds, Series 2005Ref. The refunded bond is considered to be defeased and the liability for the bond has been removed.

The deferred outflow for loss on refunding of bonds recorded for fiscal year 2015 was \$495,204. The deferred inflow for gain on refunding of bonds was \$24,378. As of June 30, 2015, the total deferred inflows and outflows for bond refundings were \$30,832 and \$2,829,141, respectively.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 6. Long-Term Obligations (Continued)

Revenue bonds: A summary of revenue bond transactions for the fiscal year ended June 30, 2015 is as follows:

	2015
Beginning, July 1	\$ 48,954,628
Bonds retired	(2,490,000)
Bonds issued	9,081,295
Bonds outstanding at June 30	55,545,923
Less current portion	(3,149,905)
	<u>\$ 52,396,018</u>

Wastewater utility revenue bonds outstanding are comprised of the following individual issues:

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2015
Series 2007 VRA	11/9/2007	\$ 17,000,000	-	\$ 12,325,000
Series 2009 VRA	11/17/2009	7,500,000	-	6,000,000
Series 2010 VRA	10/8/2010	10,000,000	-	8,500,000
Series 2011 VRA	10/21/2011	9,300,000	-	8,602,500
Series 2012 VRA	12/19/2012	11,609,355	-	11,309,356
Series 2013 VRA	12/12/2013	10,000,000	-	7,598,754
Series 2015 VRA	3/2/2015	10,000,000	-	1,210,313
Revenue Bonds outstanding				<u>\$ 55,545,923</u>

A summary of the requirements to amortize revenue bonds outstanding at June 30, 2015 is as follows:

Year Ending June 30,	Principal
2016	\$ 3,149,905
2017	3,180,162
2018	3,210,420
2019	3,210,420
2020	3,210,420
2021-2025	16,052,102
2026-2030	15,627,102
2031-2035	7,814,618
2036-2040	90,774
	<u>\$ 55,545,923</u>

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 6. Long-Term Obligations (Continued)

Wastewater revenue bonds, Series 2007 VRA loan, Series 2009 VRA loan, Series 2010 VRA loan, Series 2011 VRA loan, Series 2012 VRA loan, Series 2013 VRA loan and Series 2015 VRA loan are payable solely from the revenue of the Fund. The most restrictive covenant of the wastewater revenue bond requires that the Fund's net revenue available for debt service will equal at least 115% of the amount required during the fiscal year to pay the principal of the bond, the additional payments and all other indebtedness from revenues.

On March 2, 2015, the City issued a \$10,000,000 Wastewater System Revenue Bond, with the Virginia Resources Authority (VRA). In conjunction with the state water control board, the VRA administers and manages the Virginia Water Facilities Revolving Fund and the Bond was sold at a true interest cost of 0%. As of June 30, 2015, \$1,210,313 had been drawn to pay for capital project expenses. Additional draws for project expenses of \$2,199,169 and \$5,671,813 from bond issuances in fiscal years 2012 and 2013, respectively, resulted in total VRA drawdowns of \$9,081,295.

Bonds authorized and unissued as of June 30, 2015 were \$18,890,748.

Note 7. Employees' Retirement System (ERS)

Plan description: The ERS is the administrator of a single-employer contributory, defined benefit plan (the Plan) that covers substantially all employees of the City, excluding School Board employees and Constitutional Officers' employees who are covered by the VRS. The ERS provides retirement benefits, as well as death and disability benefits. Cost-of-living adjustments ("COLAs") are not required, are not regularly instituted and are available solely at the discretion of the City Council. The ERS and its benefits are established by Section 37 of the Code of the City of Norfolk, Virginia, as amended. ERS pension expenses and liabilities are allocated based on the employer's contribution to the Plan.

Plan benefits: The ERS provides retirement benefits, as well as death and disability benefits. All benefits vest after five years of creditable service. Employee eligibility requirements are as follows:

Retirement (for employees who became members prior to July 1, 1980): Normal retirement is the earlier of age 60 or after completion of 30 years of credited service for general employees. The normal service retirement benefit per annum is equal to 2.00% of average final compensation (average of the three highest years of compensation) times years of creditable service, with service limited to 35 years.

Retirement (for employees who became members on or after July 1, 1980): Normal retirement is the earlier of age 60 or after completion of 30 years of credited service for general employees. The normal service retirement benefit per annum for general employees is equal to 1.75% of average final compensation times years of creditable service, with service limited to 35 years. There is no mandatory retirement age for general employees.

Effective December 13, 2011, all employees hired on or after December 2011 are required to meet the vesting requirement of five years in order to be eligible to receive benefits under the Plan.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 7. Employees' Retirement System (ERS) (Continued)

Contributions: Section 37 of the Code of the City of Norfolk, Virginia, established the authority under which the City's obligation to contribute to the Plan is determined. Contribution requirements are actuarially determined at the end of each fiscal year and paid by the City in the ensuing year. Effective January 8, 2015, all Plan members pay contribution on a salary reduction basis in the amount of 5.00% of earnable compensation, with the exception of City Council members hired before October 5, 2010. Total employer contributions made by the Fund to the ERS plan were \$609,442 and \$747,024 for the years ended June 30, 2015 and 2014, respectively. These contributions combined with employee contributions of \$82,837 and \$23,785 for the year ended June 30, 2015 and June 30, 2014, respectively were expected to cover the actuarially determined contributions.

Discount rate: The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Actuarial assumptions: The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method:	Entry Age Normal Cost Method
Amortization method:	Level percent closed, 20-years layers
Amortization growth rate:	3.00%
Asset valuation method:	3-year Smoothed Value
Inflation rate:	3.00%
Salary increase-General Employees:	Average annual salary increases of 5.64% over a 30-year career; based on rates that vary by years of service and are compounded annually
Investment rate of return:	7.00%
Mortality:	RP-2000 Combined Healthy Mortality projected to 2010 by Scale AA for healthy lives; RP-2000 Disabled Mortality projected to 2010 by Scale AA for disabled lives.

The long-term expected rate of return on the ERS investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 7. Employees' Retirement System (ERS) (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

Asset Class	30-year Long-term Expected Real Rate of Return	Target Allocations
Private Core Real Estate	5.75%	5.00%
Master Limited Partnerships	7.50%	5.00%
Core Fixed Income	1.75%	35.00%
Core Plus Income	2.75%	0.00%
International Equity (AWI ex US)	5.90%	22.00%
Domestic Equity (Russell 3000)	4.50%	33.00%
		100.00%

Net Pension Liability: The net pension liability was measured as of June 30, 2014 with an actuarial valuation date of June 30, 2014. Pension expense and liability are allocated to governmental and enterprise funds based on the actual employer contributions. As of June 30, 2015, the Fund reported a net pension liability of \$2,846,304. The Fund's proportion of the collective net pension liability was based on an allocation relative to the actual contributions made towards the total actuarially determined employer contributions amongst participating funds of the City of Norfolk (Participating funds include Water, Wastewater, Governmental Activities, Parking, and Fleet Management). At June 30, 2014 the Fund's proportion was 1.72% as compared to 1.82% at June 30, 2013.

Sensitivity of Wastewater Utility Fund's proportionate share of the net pension liability to changes in the discount rate: The following presents the Fund's proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the Fund's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
ERS Net Pension Liability	5,024,836	2,846,304	962,994

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 7. Employees' Retirement System (ERS) (Continued)

Pension expense and deferred inflows and outflows of resources related to the ERS Pension: Total Pension expense included in the Fund for the City is \$693,253. At June 30, 2015, deferred inflows reported in the City's financial statements are as follows:

	Deferred Inflows of Resources
Net difference between expected and actual experience	\$ 150,413
Net difference between projected and actual earnings on plan investments	1,314,613
	<u>\$ 1,465,026</u>

Deferred outflows related to pension contributions made after the measurement date by the Fund of \$609,442 will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts related to deferred inflows or resources will be recognized in pension expense as follows:

Year	Deferred Inflows
2016	\$ 366,257
2017	366,257
2018	366,256
2019	366,256
	<u>\$ 1,465,026</u>

Deferred inflows and outflows related to changes in proportionate share between the governmental and business-type activities have not been recognized as amounts are not material.

Note 8. Commitments and Contingencies

Commitments for completion of capital projects authorized at June 30, 2015 were \$15,323,217.

Note 9. Litigation

From time-to-time, the Fund is a defendant in a number of lawsuits. Although it is not possible to determine the final outcome of these matters, management and the City Attorney are of the opinion that the ultimate liability will not be material and will not have a significant effect on the Fund's financial condition.

Note 10. Risk Management

The Fund is exposed to various risks of loss related to: theft of, damage to, and destruction of assets; injuries to employees; general liability; automobile liability; crime and employee dishonesty; professional liability; and directors' and officers' liability. The Fund's coverage is provided through the City's combination of purchased insurance policies and self-insurance plans.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 11. Other Postemployment Benefits (OPEB)

The City provides post-retirement health care benefits, in accordance with state statutes, which require extending access to healthcare benefits to certain retirees. General City employees are eligible to participate at the earlier of age 55 and 15 years of creditable service or 25 years of creditable service. Employees who retire on accidental disability are also eligible. Retirees that elect to participate may purchase health care coverage using the same health care plans and premium structures available to active employees. Retiree participation, plan/benefit elections and contributions are administered by the City's Retirement Bureau based on the participation guidelines established by the Norfolk City Council. Effective January 1, 2014, the City eliminated health care coverage for post 65 retirees (e.g., retirees eligible for Medicare).

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The actuarial valuation was performed as of July 1, 2014 with results projected for the fiscal year ended June 30, 2015.

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with GAAP wherein governments report on an accrual basis, benefit costs related to the period in which benefits are earned rather than to the period of benefit distribution. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The ARC as computed for the City is allocated to the Fund based on payroll.

The total unfunded actuarial accrued liability (UAAL) for 2015 is \$ 787,929, and is allocated to the Fund on the same basis as the ARC. The allocation is based on covered payroll and does not purport to represent the OPEB liability of the Fund on a stand-alone basis. Reference should be made to the Comprehensive Annual Financial Report of the City for further information.

The Fund and the City use the pay as you go method to calculate the OPEB liability for June 30, 2015 as the City has not funded a trust for the OPEB liability. Using the most recent OPEB plan valuation date of July 1, 2014, the following table shows the components of the Fund's annual OPEB costs projected for the current fiscal year, the amount contributed to the Plan and the changes in the net OPEB obligation:

	2015
Net beginning OPEB obligation	\$ 642,236
Annual required contributions	88,447
Interest on net OPEB obligation	24,686
Adjustment to ARC	(22,924)
Annual OPEB cost	90,210
Less: contributions made	61,549
Increase in net OPEB obligation	28,660
Net ending OPEB obligation	\$ 670,896

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 12. Accounting Pronouncements Issued But Not Yet Implemented

The GASB has issued several pronouncements that may impact future financial presentations. Management has not determined what, if any, impact implementation of the following statements will have on the City.

GASB Statement No. 72: *Fair Value Measurement and Application*. The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, completes the suite of pension standards. This statement establishes requirements for those pensions and pension plans that are not covered by Statements 67 and 68. They generally are the same as in Statement 68. However, the lack of a pension plan that is administered through a trust that meets specified criteria is reflected in the measurements. The provisions are effective for fiscal years beginning after June 15, 2015, except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, replaces GASB Statement No. 43. The statement addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The statement follows the framework for financial reporting of defined benefit OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The statement requires more extensive note disclosures and required supplementary information related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. The statement also sets forth note disclosure requirements for defined contribution OPEB plans. The statement is effective for fiscal years beginning after June 15, 2016.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. This statement requires governments to report a liability on the face of the financial statements for the OPEB that they provide. The statement is effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 77, *Tax Abatement Disclosures*. This statement requires state and local governments to disclose information about tax abatement agreements. The disclosures required by this statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The statement is effective for fiscal years beginning after December 15, 2015.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 13. Subsequent Events

Virginia Water Facilities Revolving Fund – On November 12, 2015, the State Water Control Board (the "Board") authorized funding from the Virginia Water Facilities Revolving Fund to the City of Norfolk. The funding consists of an interest-free loan of \$6,000,000.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Required Supplementary Information

Supplemental Other Post Employment Benefit (OPEB)
Schedule of Funding Progress
Last Three Fiscal Years
(Unaudited)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Estimated covered payroll (c)	UAA as a percentage of covered payroll (b-a)/c
July 1, 2014	\$ -	\$ 787,929	\$ 787,929	0%	\$ 3,709,235	21.2%
July 1, 2013	-	1,074,814	1,074,814	-	3,707,333	29.0%
July 1, 2012	-	1,172,960	1,172,960	-	3,437,126	34.1%

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Required Supplementary Information

CITY OF NORFOLK
Norfolk Employee Retirement System
Schedule of Employer Contributions (unaudited)
Last 10 Fiscal Years
(Amounts in thousands)

Fiscal Years	Actuarially Determined Required Contributions*	Employer Contributions*	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll**	Contributions as a % of Covered Employee Payroll
2015	\$ 667	\$ 609	\$ 58	\$ 3,119	19.53%
2014	669	669	-	3,098	21.59%
2013	729	729	-	2,980	24.46%
2012	755	755	-	2,971	25.41%
2011	739	739	-	3,069	24.08%
2010	613	613	-	3,273	18.73%
2009	529	529	-	3,161	16.74%
2008	479	479	-	3,080	15.55%
2007	482	482	-	2,929	16.46%
2006	457	457	-	2,744	16.65%

* The actuarially determined contribution and the employer contributions were adjusted for years prior to 2014 to retrospectively apply the timing of recognition under GASB 68.

** The actuarial determination of the ADC is based on the projection of covered payroll for the period for which the ADC will apply. The covered-employee payroll was provided by the actuary.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Required Supplementary Information

CITY OF NORFOLK
Norfolk Employee Retirement System
Schedule of Proportionate Share of the Net Pension Liability (unaudited)
(Amounts in thousands)

	<u>2015</u>
Proportionate share of the net pension liability	1.72%
Proportionate share of the net pension liability	\$ 2,846
Covered employee payroll	\$ 3,119
Proportionate share of the net pension liability as a percent of covered payroll	91.25%
Plan fiduciary net position as a percentage of the total pension liability	86.50%

*This schedule is intended to illustrate the requirement to show information for 10 years. However, since 2014 is the first fiscal year when the information was available, no other data is included. Additional years will be included as they become available.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Other Supplementary Information

Debt Capacity Information - Revenue Bonds Debt Service Coverage							
Last Five Fiscal Years							
Fiscal Year	Revenue Available for Debt Service (1)	Operating Expenses Less Depreciation & Amortization (2)	Available for Debt Service	Debt Service			Coverage
				Principal	Interest	Total	
2011	\$ 24,856,689	\$ 11,375,370	\$ 13,481,319	\$ 850,000	\$ -	\$ 850,000	15.86
2012	25,695,602	10,860,728	14,834,874	1,225,000	-	1,225,000	12.11
2013	25,898,789	11,541,897	14,356,892	1,725,000	-	1,725,000	8.32
2014	27,414,892	10,767,704	16,647,188	1,957,500	-	1,957,500	8.50
2015	28,241,721	10,581,959	17,659,762	2,490,000	-	2,490,000	7.09

1. Includes operating revenue plus interest income, net of interest capitalized.

2. Includes operating expenses less depreciation/amortization and payment in lieu of taxes (PILOT).



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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

The Honorable Members of the City Council
City of Norfolk, Virginia:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the Wastewater Utility Fund of the City of Norfolk, Virginia (the Fund), which comprise the statement of net position as of June 30, 2015, and the related statement of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated January 25, 2016, which included a paragraph emphasizing that in fiscal year 2015, the Fund adopted new accounting guidance described in Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results



of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Norfolk, Virginia
January 25, 2016